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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

ANNUAL REPORT 1966

YEARS

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors and Officers

GORDON R. GILLIES, *President*

J. H. RATCLIFFE, C.B.E., *Vice-President*

GORDON M. GRAHAM

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKERS, *The Bank of Nova Scotia, Canadian Imperial Bank of Commerce*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE, *91 Gould Street, Toronto 2, Ontario*

ROTOGRAVURE DIVISION, *1150 Islington Ave. North, Rexdale, Ontario*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Financial Highlights

EARNINGS	1966	1965
Sales - - - - -	\$5,323,927	\$4,796,848
Operating profit - - - - -	867,054	769,406
Provision for depreciation - - - - -	305,789	242,090
Income taxes - - - - -	247,500	213,700
Net profit - - - - -	254,270	220,093
Net profit per share - - - - -	1.55	1.34
Dividends paid - - - - -	131,472	131,472
Dividends paid per share - - - - -	.80	.80
BALANCE SHEET		
Working capital - - - - -	\$ 764,131	\$ 643,667
Shareholders' equity - - - - -	2,920,041	2,625,304
Shareholders' equity—per share - - - - -	17.77	15.97

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors' Report to the Shareholders

Your directors have pleasure in submitting the annual report of the company for the fiscal year ended December 31, 1966, together with the financial statements and the auditors' report thereon.

SALES AND NET PROFIT In 1966, sales amounted to \$5,323,927 an increase of \$527,079 or 11.0% over 1965. After meeting all charges, including a provision of \$305,789 for depreciation of plant and equipment, and a provision of \$247,500 for income taxes, there remained a net profit of \$254,270 or \$1.55 per share as compared with \$220,093 or \$1.34 per share for the previous year, an increase of 15.5%.

DIVIDENDS Dividends of 40 cents per share were paid March 1, 1966, and September 1, 1966, making a total distribution to shareholders of 80 cents per share or \$131,472.

EARNINGS EMPLOYED IN THE BUSINESS Earnings employed in the business as at December 31, 1966, amounted to \$2,282,447 compared to \$1,987,710 last year. The increase of \$294,737 includes an amount of \$167,403 resulting from the expropriation by The Department of Highways of Ontario of some of the company's land, situated at the intersection of the Macdonald-Cartier Freeway and Islington Avenue, in Metropolitan Toronto.

WORKING CAPITAL Working capital at December 31, 1966, amounted to \$764,131 as compared with \$643,667 at the end of 1965. The Source and Application of Funds statement gives details of this \$120,464 increase.

REDEMPTION OF BONDS During the year, the company redeemed \$250,000 of its 5¼ % first mortgage sinking fund bonds leaving a balance outstanding as at December 31, 1966, of \$500,000 of the original issue of \$3,500,000.

SHAREHOLDERS' EQUITY As at December 31, 1966, shareholders' equity reached \$2,920,041 equal to \$17.77 per share compared with \$2,625,304 or \$15.97 per share last year.

EXPANSION OF PRINTING FACILITIES As referred to in our 1964 Annual Report to Shareholders, your directors decided to undertake an aggressive expansion in the rotogravure printing industry. The first stage of this expansion programme was completed in June 1966 at a cost of approximately \$1,200,000 for additional printing and binding equipment which added materially to the capacity of our plant.

However, due to the continuing growth of our business and particularly the increasing demand from our customers for more full colour printing, it is now necessary to undertake the second stage of our planned expansion programme. Accordingly, your Board of Directors has approved the purchase of additional press and ancillary equipment which is expected to be in operation by early 1969. This second stage, which will nearly double our existing capacity, will cost, when completed, approximately \$3,800,000.

OFFICERS AND DIRECTORS Following the last annual meeting of shareholders, Mr. H. B. Keenleyside, having reached retirement age, retired from the Presidency but continued as a director. The directors take this opportunity of recognizing his valuable contribution to the growth of the company during his 20 years as President from June 1946 to March 1966.

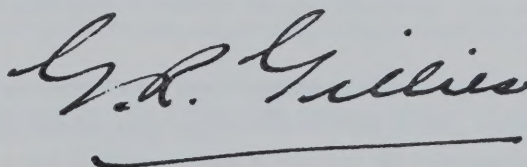
Mr. G. R. Gillies, formerly Executive Vice-President, was elected to succeed Mr. H. B. Keenleyside.

It is with regret that we report the death on September 3, 1966, of Mr. N. C. Urquhart, C.B.E., who served on your Board of Directors for the past 15 years. Mr. Urquhart participated actively in the affairs of your company and his advice and assistance will be greatly missed.

He was succeeded on the Board by Mr. D. J. Peacher, President of Simpsons-Sears Limited.

The appreciation of the Board of Directors is again expressed to all employees who through their loyalty and efficiency throughout the year contributed materially to high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, reading "G. R. Gillies". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

President.

Toronto, Canada,
January 31, 1967.

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ASSETS

CURRENT:

	1966	1965
Cash - - - - -	\$ 83,057	\$ 67,370
Investments at cost— market values 1966—\$427,000; 1965—\$523,000 (note 1) - - - - -	433,285	523,906
Accounts receivable - - - - -	171,485	149,144
Portion of note receivable due within one year - - - - -	85,800	85,800
Inventories of work in process and materials at cost, less progress payments - - - - -	444,518	315,050
Prepaid expenses - - - - -	11,645	12,920
TOTAL CURRENT ASSETS - - - - -	1,229,790	1,154,190

CAPITAL—at cost:

Land - - - - -	57,486	64,114
Buildings - - - - -	1,925,336	1,925,336
Machinery and equipment - - - - -	4,552,369	4,009,572
	6,535,191	5,999,022
Less accumulated depreciation - - - - -	3,132,126	2,828,985
NET CAPITAL ASSETS - - - - -	3,403,065	3,170,037

OTHER:

Note receivable—secured—portion due after one year - - - - -	85,800	171,600
Government of Canada special refundable tax - - - - -	17,045	
TOTAL OTHER ASSETS - - - - -	102,845	171,600
	\$4,735,700	\$4,495,827

On behalf of the Board:

G. R. GILLIES }
J. H. RATCLIFFE } *Directors*

NOTES:

1. Investments consist of government guaranteed bonds and Government of Canada treasury bills.
2. Includes remuneration paid to directors who are full-time salaried officers of the company.
3. The directors have approved the purchase of additional press and ancillary equipment which will represent an expenditure of approximately \$3,800,000 when installed and in operation by early 1969.

ELECTROTYPERS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET

As at December 31, 1966

(Audited at December 31, 1965)

LIABILITIES

CURRENT:	1966	1965
Accounts payable and accrued charges - - - - -	\$ 331,141	\$ 379,706
Estimated income and other taxes - - - - -	134,518	130,817
	<u>465,659</u>	<u>510,523</u>
5¼ % FIRST MORTGAGE SINKING FUND BONDS:		
Series "A" maturing December 15, 1968 - - - - -	3,500,000	3,500,000
Less total redeemed to date - - - - -	<u>3,000,000</u>	<u>2,750,000</u>
Balance outstanding (including balance of \$250,000 of sinking fund instalment due December 15, 1967) - - - - -	<u>500,000</u>	<u>750,000</u>
DEFERRED INCOME TAXES - - - - -	<u>850,000</u>	<u>610,000</u>
TOTAL LIABILITIES - - - - -	<u>1,815,659</u>	<u>1,870,523</u>
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized: 250,000 shares, no par value		
Issued: 164,340 shares - - - - -	637,594	637,594
Earnings employed in the business - - - - -	<u>2,282,447</u>	<u>1,987,710</u>
TOTAL SHAREHOLDERS' EQUITY - - - - -	<u>2,920,041</u>	<u>2,625,304</u>
	<u>\$4,735,700</u>	<u>\$4,495,827</u>

Auditors' Report

To the Shareholders of Photo Engravers & Electrotypers Limited:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1966 and the statements of earnings, earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 12, 1967.

CLARKSON, GORDON & Co.
Chartered Accountants

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Earnings and Earnings Employed in the Business

For the Year ended December 31, 1966

(with comparative figures for the year 1965)

	1966	1965
SALES - - - - -	<u>\$5,323,927</u>	<u>\$4,796,848</u>
OPERATING PROFIT before the following items: - - - - -	<u>\$ 867,054</u>	<u>\$ 769,406</u>
Provision for depreciation - - - - -	305,789	242,090
Directors' remuneration (note 2) - - - - -	56,060	74,833
Bond interest expense - - - - -	38,800	51,006
Interest income - - - - -	<u>(35,365)</u>	<u>(32,316)</u>
	<u>365,284</u>	<u>335,613</u>
PROFIT BEFORE PROVISION FOR INCOME TAXES - - - - -	501,770	433,793
Provision for income taxes including deferred portion of \$240,000 (1965—\$190,000) - - - - -	<u>247,500</u>	<u>213,700</u>
NET PROFIT FOR YEAR - - - - -	254,270	220,093
Less dividends paid - - - - -	<u>131,472</u>	<u>131,472</u>
BALANCE OF YEAR'S EARNINGS - - - - -	122,798	88,621
EARNINGS EMPLOYED IN BUSINESS AT BEGINNING OF YEAR -	1,987,710	1,858,591
Excess of proceeds over cost of expropriated land - - - - -	167,403	
Recovery of prior year's moving expenses less applicable income taxes - - - - -		36,678
Profit on sale of investments and obsolete equipment - - - - -	<u>4,536</u>	<u>3,820</u>
EARNINGS EMPLOYED IN BUSINESS AT END OF YEAR - - - -	<u>\$2,282,447</u>	<u>\$1,987,710</u>

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Source and Application of Funds

For the Year ended December 31, 1966

(with comparative figures for the year 1965)

	<u>1966</u>	<u>1965</u>
SOURCE OF FUNDS:		
Net profit for year - - - - -	\$ 254,270	\$ 220,093
Charges not involving a current outlay of funds—		
Depreciation - - - - -	305,789	242,090
Deferred income taxes - - - - -	<u>240,000</u>	<u>190,000</u>
FUNDS FROM OPERATIONS - - - - -	800,059	652,183
Excess of proceeds over cost of expropriated land - - - - -	167,403	
Payment on note receivable - - - - -	85,800	85,800
Net recovery of prior year's moving expenses - - - - -		36,678
Profit on sale of investments and obsolete equipment - - - - -	<u>4,536</u>	<u>3,820</u>
	<u>1,057,798</u>	<u>778,481</u>
APPLICATION OF FUNDS:		
Expenditures for machinery and equipment - - - - -	538,817	676,325
Reduction in funded indebtedness - - - - -	250,000	250,000
Dividends paid to shareholders - - - - -	131,472	131,472
Government of Canada special refundable tax - - - - -	<u>17,045</u>	
	<u>937,334</u>	<u>1,057,797</u>
INCREASE (DECREASE) IN WORKING CAPITAL - - - - -	120,464	(279,316)
WORKING CAPITAL, BEGINNING OF YEAR - - - - -	643,667	922,983
WORKING CAPITAL, END OF YEAR - - - - -	<u>\$ 764,131</u>	<u>\$ 643,667</u>

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Ten Years' Review

Earnings

Year	Operating Profit	Provision for Depreciation	Profit Before Income Taxes	Net Profit	Net Profit Per Share*	Dividends Per Share*
1957	\$715,329	\$231,673	\$423,831	\$213,331	\$1.32	\$.47½
1958	770,466	240,394	455,864	230,364	1.42	.55
1959	817,626	247,627	488,535	235,535	1.45	.70
1960	740,768	253,825	404,227	201,227	1.24	.80
1961	793,656	253,605	455,619	224,119	1.37	.80
1962	753,768	251,739	417,956	208,956	1.28	.80
1963	818,578	256,456	486,993	240,493	1.46	.80
1964	773,405	253,368	457,148	227,148	1.38	.80
1965	769,406	242,090	433,793	220,093	1.34	.80
1966	867,054	305,789	501,770	254,270	1.55	.80

Balance Sheet

Year	Working Capital	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Long Term Debt	Share-holders' Equity	Share-holders' Equity Per Share*
1957	\$1,238,640	\$5,043,419	\$3,592,459	\$2,731,000	\$1,831,777	\$11.37
1958	1,405,074	5,086,345	3,404,461	2,481,000	1,988,037	12.29
1959	1,244,282	5,219,895	3,301,208	2,019,000	2,133,118	13.14
1960	1,274,845	5,441,294	3,202,818	2,000,000	2,057,995	12.63
1961	1,335,917	5,502,145	3,026,119	1,750,000	2,180,052	13.34
1962	1,357,477	5,560,655	2,837,513	1,500,000	2,264,759	13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000	2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000	2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000	2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000	2,920,041	17.77

*Giving effect in prior years to 1958 subdivision of shares.



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